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C O N F I D E N T I A L SECTION 01 OF 03 ATHENS 001661

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AMEMBASSY ATHENS PASS TO AMCONSUL THESSALONIKI  
AMEMBASSY MOSCOW PASS TO AMCONSUL VLADIVOSTOK  
AMEMBASSY MOSCOW PASS TO AMCONSUL YEKATERINBURG

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SUBJECT: THE PAPANDREOU GOVERNMENT: OLD VS. NEW

REF: ATHENS 1653; ATHENS 1583; ATHENS 1581; ATHENS 1547

CLASSIFIED BY: Daniel V. Speckhard, Ambassador; REASON: 1.4(B), (D)

Summary

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¶1. (C) Seven weeks after it was brought to power in Greek parliamentary elections, the government of George Papandreou has come under criticism from the Greek public and international markets for an erratic start in implementing its sweeping governmental reform. In many ways this is to have been expected: the new government came in with virtually no transition period and immediately enacted unprecedentedly large changes in the responsibilities of ministries. It will take more time for these government bodies to get used to their new roles, and for the public to start seeing signs of the modernization and streamlining of government that Papandreou promised. The Prime Minister's personal staff has also not yet finalized its relationship with the ministries. In addition to the unresolved administrative issues, there are tensions between two camps within the government that have not worked out their political relationship to each other: the old lions of the ruling Pan-Hellenic Socialist Movement (PASOK), many of whom are holdovers from Papandreou's father's administration, and the younger officials who lack longstanding political connections but seem to have the Prime Minister's favor. In the short run at least, these dynamics have produced uncertainty on the part of some of our government contacts about the positions of their own government. In the longer run these problems should decrease, but the rivalries between the old and new guards, and between reformists at the top and entrenched interests in both government and the economy, are likely to be major factors determining whether Greece does really reform. End Summary.

Hitting the Ground Running?

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¶2. (SBU) Papandreou came into office with a strong mandate from PASOK's October 4 election victory, and he has aggressively pursued a government reform that is, if anything, more ambitious than what he called for in the campaign. His re-organization of ministries (ref D) was substantially more sweeping than usual for a new Greek government, and it ruffled feathers even within PASOK. Now that bureaucratic reality is beginning to set in, the newspapers -- including those that are usually pro-PASOK -- are full of stories of government confusion, conflict, and unfulfilled promises. Polls suggest a majority of Greeks are already dissatisfied with the government's job performance, although PASOK still trounces New

Democracy, the former ruling party, in head-to-head polls. While the government has pushed a reform agenda on a number of fronts, its spokespersons have often given contradictory signals on the details and implementation has not been thought through. Some glaring examples include:

-- The government announced it will reform the asylum system (much-criticized by human rights groups) and permit immigrant children to obtain Greek citizenship in some cases. Both in public and private statements, however, government officials made contradictory or inconclusive statements about which ministry will have control of the asylum process, who will be eligible for citizenship, and other key aspects of these reforms.

-- The recent dockworkers strike turned into a public challenge to the government, despite the fact that the strikers moved under the leadership of hard-core PASOK unionists (ref C). The government designated several different point persons to deal with the strikers, leading to confusion about its message. As with other issues, PASOK was caught between a rock and a hard place, as it sought to balance demands from its union constituency and the need to use this issue as a signal to markets and investors that it was

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serious about reforms.

-- The government abolished a popular "cash for clunkers" program developed by the previous government but without a legislative remedy in place. While the new government said the change was a budget-saving measure, the move stranded an estimated 73,000 car owners who had already surrendered their vehicles based on a government promise to provide EUR 500 to 2,000 in incentives.

13. (C) The media has had a field day with these stories, which can be spun to suggest that the new team is in over its head. As time passes and the new appointees become more familiar with their ministries (and vice versa), missteps of this sort may decrease. For the time being, however, we have encountered a number of working-level government officials in the course of normal business who have clearly not gotten instructions on the government's policy toward a number of issues, small and large. This is true even (perhaps especially) in the Ministry of Foreign Affairs, where Papandreou personally occupies the minister's chair.

#### The Role of the Prime Minister's Office

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14. (C) Papandreou has assembled a personal staff of mostly young, capable people led by the old guard stalwart Professor Harry Pamboukis, who has attempted to resolve disputes between ministries and to clarify lines of command, in the process making himself an increasingly unpopular person among the cabinet. Below him, senior Greek diplomat Dimitrios Paraskevopoulos, former Ambassador to Moscow and Paris, serves as the PM's diplomatic advisor. He impressed us as a frank, serious yet amiable interlocutor during a November 16 meeting with Assistant Secretary of Defense Vershbow. Based on their experience and skills, these staffers would seem well-positioned to play an NSC-like role in interagency coordination, something that has never really existed in Greece. While they may eventually fill this role, their presence is currently not felt at the ministries to any significant extent, and they will have to build these lines of communication from scratch. More importantly, the PM will need to make it clear that Ministries will need to coordinate and not go it alone. He sent a strong signal of his seriousness by naming PASOK heavy Theodoros Pangalos

as his Deputy Prime Minister. His job is understood to be enforcing ministerial coordination.

#### Underlying Fissures

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15. (SBU) As several Greek commentators have pointed out, a major cause of Papandreou's difficulties is the ingrained culture of perks, handouts, and free benefits that have long characterized the Greek state. Papandreou's promises of "open government," based to a significant extent on the Internet, and "complete transparency" have been met with skepticism, even by members of the cabinet. Before transparent government can be achieved, these skeptics argue, the notorious Greek bureaucracy needs to be tamed.

16. (C) Papandreou has staffed his government with almost equal numbers of PASOK veterans and newcomers, something he reportedly did intentionally to augment an experienced core with talented new blood. Despite the fact that he is a scion of PASOK's leading family, the American-born Papandreou is generally believed to prefer young outsiders - people he views as modern technocrats - over the traditional Greek politicians who worked for his father. These two groups co-exist uneasily in the new government, and even within ministries. At Defense, for example, there is ill-concealed jockeying for authority between Minister Venizelos - who led an unsuccessful old-line effort to unseat Papandreou as PASOK leader

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in 2007 - and Alternate Minister Beglitis, who is closer to Papandreou. The same dynamic exists in the Ministry of Education, with Deputy Minister Panaretos publicly contradicting his boss, Minister Diamantopoulou. Economy Minister Louka Katseli, a PASOK veteran, is reportedly unhappy that she has been upstaged as the leading economic policy maker by Finance Minister George Papakonstantinou, who is one of Papandreou's new, young confidants (ref B). Environment Minister Tina Birbili, a former Papandreou speechwriter emblematic of the new breed, has come under criticism for her inexperienced handling of "cash for clunkers" and other issues. Similarly, Papandreou's choice for PASOK Secretary General, the little-known Sokratis Xynides, was elected by the party committee October 23 by a surprisingly small margin. The vote was seen as a warning to Papandreou from the old-line PASOK cadres, and it seems to have left Xynides in no position to assert party discipline, the traditional role of the position.

17. (SBU) The pressures from the "deep" PASOK system - historically based on nepotism and political clientelism for the party's network of friends - run directly counter to Papandreou's platform of open government, and satisfying both sets of demands will be a difficult balancing act. Commentators have noticed that Papandreou and Papakonstantinou have recently adopted more populist economic rhetoric, criticizing "plutocrats" and "those who plunder the people's wealth," leading to speculation that the government's not-yet-announced tax plan may be designed to benefit core PASOK constituencies at the expense of economic growth. On the other hand, such rhetoric could be a means to try to deflate what is expected to be strong opposition to upcoming, painful reforms (ref A) and to make the entire process more palatable to the public and the old guard.

#### Comment

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18. (C) Greeks voted eagerly for a political shift on October 4. The Greek government system is, however, even more resistant to change than most democracies, and Papandreou is starting to

encounter difficulties taking on the many challenges facing Greece while overhauling the government structure at the same time. We anticipate that some of these difficulties will soon be overcome and forgotten, as Papandreou's policy guidance filters down and is absorbed by the ministries. But the bigger question of whether Papandreou's domestic reform agenda will be able to overcome the resistance of traditional power centers - including in his own party - will likely remain open for some time. The answer will be key to determining Papandreou's legacy for Greece.

Speckhard